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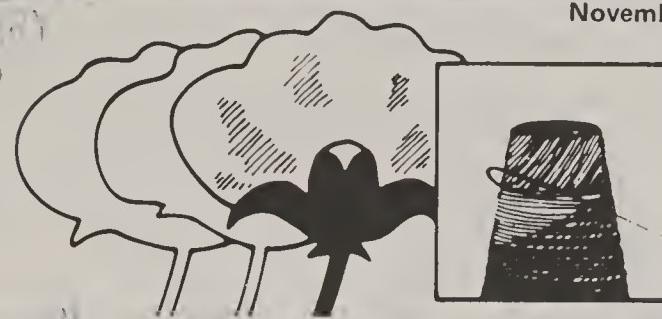
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FARMERS' NEWSLETTER

November 78/C-5

Cotton

JAN 30



With harvesting about complete, you can now turn your attention to marketing the rest of this year's crop and planning 1979's. Here's some information--including prospects for next year--to help you make these decisions.

To Sell or To Store

If you haven't already committed your 1978 cotton, you should evaluate your options carefully--sell, store, or both?

If you decide to postpone part of your sales but you need operating cash, you can put your crop under CCC loan. USDA recently shaved the interest rate on CCC loans to 7 percent. However, interest, storage costs, and insurance will run you about half a cent a pound each month. So your price will have to go up a penny every 2 months for you to break even.

What To Watch

Your actions will likely depend upon what you think prices will do in the next several months. Although USDA is prohibited by law from projecting cotton prices, we can point out some things to watch:

- o U.S. cotton export sales. These mirror foreign cotton demand and supply. Strong exports are crucial to maintaining the recent price strength.

- o The December crop production report. The November report showed cotton production slightly above both October indications and trade expectations. The result: The December 1978 futures price dropped 1-1/2 cents a pound over the next 2 trading days.

- o Cotton program announcements affecting 1979 acreage decisions. Whether or not there will be an acreage set-aside or diversion program--which would be a plus for cotton prices next year--will be announced in December.

The target price for 1979 will likely be 56-57 cents a pound, up from 52 cents in 1978. As recently announced, the loan rate for SLM 1-1/16 inch cotton, at average location, will be 50.23 cents a pound, up from 48 cents this season.

- o General economic developments. A slowdown in the economy could cause reduced mill use and signal weakening prices.

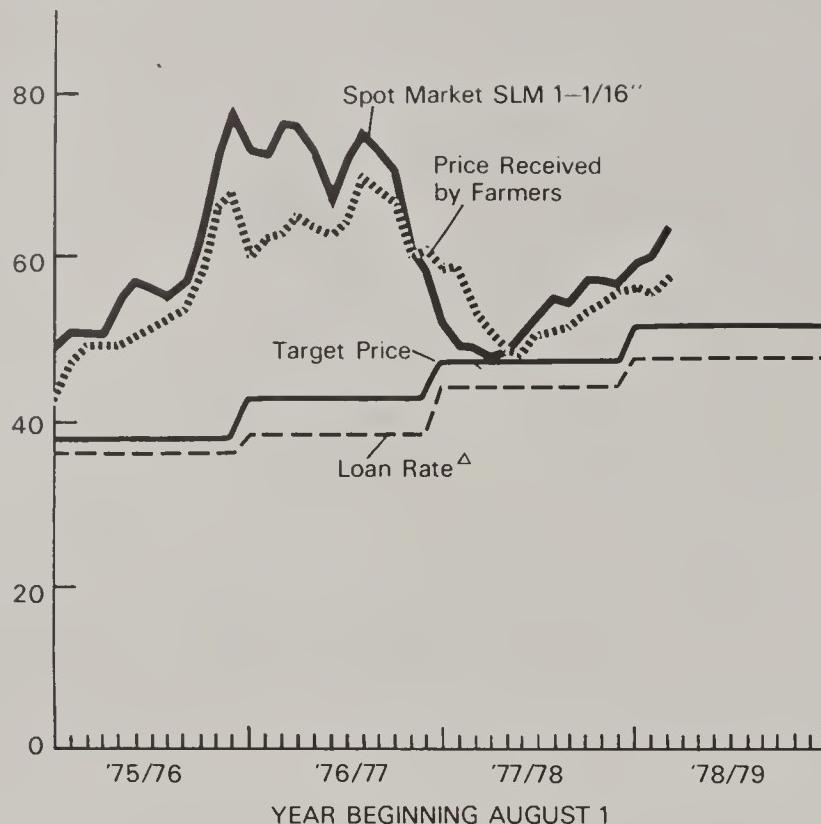
A Look Ahead to Next Season

More Acreage Next Spring? Cotton acreage planted next spring will depend mainly on the price of cotton relative to those of

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U.S. COTTON PRICES

c PER LB.



△ SLM 1-1/16", AVERAGE LOCATION

competing crops, especially soybeans and grain sorghum.

Prices of cotton, soybeans, and sorghum have risen since last spring, with cotton experiencing the sharpest relative increase.

If current price relationships prevail, cotton acreage could increase next year to nearly 14 million, providing there is no set-aside or diversion program.

Of course, if some price weakness for cotton relative to competing crops develops between now and planting time, acreage would be less.

But, at this time, it is hard to see cotton acreage dropping below 13 million on the basis of market prices alone.

Higher Production Costs. Cotton producers will likely be faced with high production costs next

spring for some items. However, fertilizer prices this October were down slightly from last winter, and the costs of agricultural chemicals were 4 percent below a year earlier.

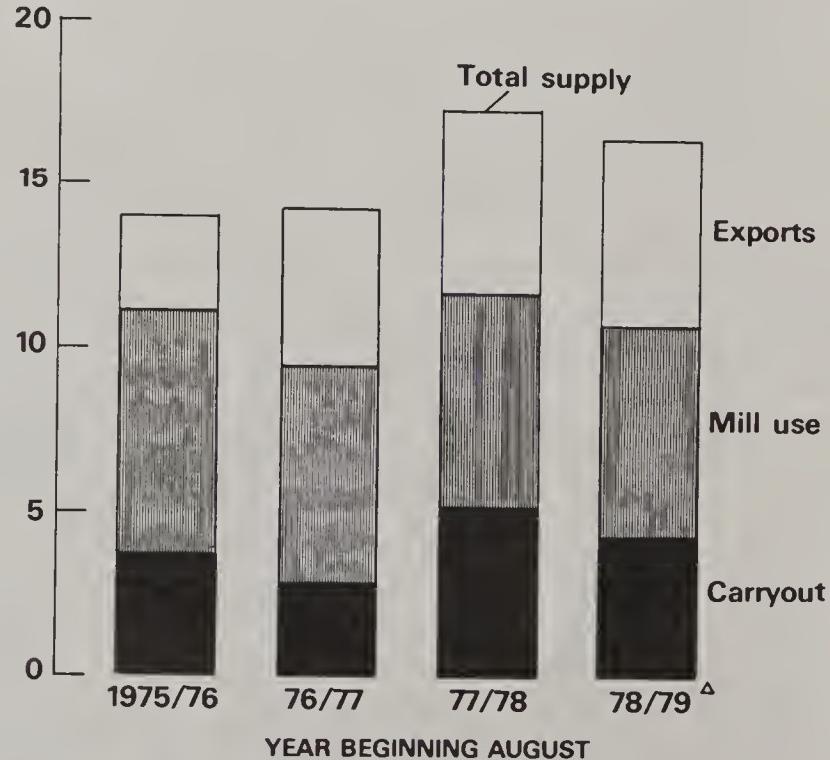
Major cost increases will likely be for farm labor, fuels, utilities, seed, machinery, and real property taxes. Interest rates will also be higher.

Domestic Use, Exports. As usual, cotton mill use will depend on general economic growth. Most experts see only modest growth next year, and others are even less optimistic. And domestic mill use is likely to continue to be harmed by textile imports.

On the plus side, we may see increased cotton denim and other heavyweight woven-fabric production in the United States. Mill use will likely remain at the current low level, perhaps in the 5.8 to 6.6 million-bale range.

COTTON SUPPLY AND UTILIZATION

MIL. BALES



▲ FIGURES FOR 1978/79 ARE ESTIMATES AND FORECASTS AS OF MID-OCTOBER.

The expected low level of foreign cotton stocks next August, coupled with the possibility of larger U.S. output, suggests the 1979/80 marketing season could be another good year for U.S. exports.

However, two factors could limit our cotton exports:

- o A likely increase in foreign cotton acreage, and
- o Reduced mill use.

Both of these could occur in reaction to higher cotton prices this season.

In summary, market conditions today indicate the possibility of 1979 U.S. production exceeding disappearance.

As a result, we could see an increase in cotton stocks during the 1979/80 season--the reverse of developments this year.

A Word About Forward Contracting

Some cotton producers have already contracted a portion of their expected 1979 acreage. This is an option that you should seriously consider, especially if you think prices could weaken over the next year.

As a guide, you might use a comparison of the price at which you can currently forward contract 1979 production with your expected average production cost next year.

If you're then satisfied with your price offer, it would probably be advisable to contract a portion of your expected acreage.

* * * * * * * * * * * * * * *
* 1978/79 Outlook
*
* This year's cotton crop
* is forecast at about 11
* million bales, based on
* November 1 conditions.
* That's 1 percent above
* the October forecast, but
* 24 percent below the 1977
* output.
*
* Combined mill use and
* exports may slightly
* exceed last season's 12
* million bales. Domestic
* use remains slow, al-
* though some improvement
* in the denim market is
* evident. Mill use should
* total about 6.3 million
* bales this season, com-
* pared with 6.5 million
* in 1977/78.
*
* As for exports, the out-
* look has improved. Ship-
* ments are now forecast
* close to 5.8 million
* bales--up slightly from
* last year.
*
* Carryover next August 1
* is likely to total nearly
* 4.5 million bales, com-
* pared with this season's
* beginning level of 5.3
* million.
*
* Prices have strengthened
* throughout 1978. In Oct-
* ober, farm prices aver-
* aged 58 cents a pound, 10
* cents above the January
* level. Spot market prices
* for SLM 1-1/16 inch cotton
* were 66 cents a pound in
* early November, up 16
* cents from January. How-
* ever, prices had fallen
* back to the 63 to 64-cent
* range by mid-November.
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FARMERS' NEWSLETTER



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1978 Census of Agriculture

If you haven't received your copy of the questionnaire for the 1978 Census of Agriculture, you should be receiving it shortly. The Bureau of the Census plans to mail the new, shorter forms in January.

The surveys this year are only four pages for most farmers and ranchers--five pages for a selected sample--compared with the surveys for the 1974 census, which ran 22 pages.

The modernization of the reporting forms followed intensive study by the Bureau. Recommendations for shortening the form came from farmers, ranchers, other users of the census, and the Census Advisory Committee on Agricultural Statistics. That committee has members from agriculture, trade groups, farm equipment manufacturers, and consumer groups.

All individual responses in the survey are held in strictest confidence by the Bureau, so you won't have to worry about your competitors receiving informa-

tion you'd rather was kept secret. The Bureau will publish county-by-county totals, not identifying individuals.

All people who produced and sold more than \$50-worth of agricultural products in 1978 are required by law to complete a survey form. The Bureau will follow the initial mailing with letters, phone calls, and personal visits, if necessary, to ensure all surveys are completed--but these actions drive the cost of census-taking up.

A few farmers and ranchers may not receive a form because their names don't appear on Bureau mailing lists, but they still have to complete one. If you don't get your form in the mail, or you know someone who didn't get one, extra surveys are available from the Bureau of the Census, Agriculture Division, 1201 East Tenth St., Jeffersonville, Indiana 47132.

You can write to that address, or visit one of ten regional offices, if you run into trouble completing the form. Remember, where hard data aren't known, estimates are acceptable.